

BOARD MINUTES 2004

THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION
PROGRAM

MEETING OF THE BOARD OF DIRECTORS

February 25, 2004

MINUTES

Present:

Chairman Kay Ivey

Dr. Mike Malone

Dr. Joe Sutton

Mr. Ed Sherling

Mr. Ricky Jones

Ms. Jacquelyn Shaia

Mr. Bill Drinkard

Absent:

Mr. Willie Huff

Dr. Roy Johnson

Lt. Governor Lucy Baxley

Others Present:

Mrs. Daria Story, Assistant Treasurer and Chief Operating Officer

Mr. Anthony Leigh, Deputy Treasurer

Mrs. Brenda Emfinger, College Savings Programs Director

Mr. Roman McLeod, College Savings Programs Coordinator

Mr. Bud Pellecchia, Investment Consultant, Callan Associates

Mr. Dan Sherman, Actuary, Mellon Human Resources and Investor Solutions

Mr. Marty Lee, Auditor, Jackson Thornton & Company

Mr. George Brown, George Brown & Associates

Pursuant to written and public notice, a meeting of the Board of Directors of the PACT Program was held in the 3rd Floor Conference Room of the RSA Union Building, Montgomery, Alabama on February 25, 2004.

The meeting was called to order by Chairman Kay Ivey at 10:30 a.m. Treasurer Ivey introduced presented the minutes of the December 3, 2003 board meeting. A motion was made by Ms. Shaia, seconded by Mr. Sherling for approval as written. The motion unanimously carried.

Agenda Item III. (A.)

The PACT Program report was received as information. Mr. Bud Pellecchia presented the 12/30/03 Quarterly Investment Report which is attached for reference. Mr. Pellecchia stated that there had been strong equity performance for the year based on strong economic news with value outperforming growth and small and mid cap stocks doing better than large cap. Mr. Pellecchia then reviewed asset allocation and each individual manager's performance. He stated that the market value of assets at the end of the quarter was \$633,353,837 as opposed to the market value on September 30th of \$570,080,797. Mr. Pellecchia discussed managers who were being terminated and informed the board that after new managers were selected, he would review the benchmark for the indexed equity manager for any recommended change.

Mr. Pellecchia provided a copy of a letter that had been sent to the Board concerning the SEC examination of Investment Consulting firms which included Callan Associates. Mr. Pellecchia explained that the inquiry resulted from the current issues regarding the mutual fund industry and the request was for information on the manager search process. Mr. Pellecchia further explained that Callan had no brokerage relationships and that the consulting business was completely separate from their other two businesses. The letter is attached for reference.

Agenda Item III. (B.)

Chairman Ivey called on Mr. Marty Lee from Jackson Thornton to present the results of the 2003 fiscal year end audit. Mr. Lee reviewed the results of the audit, stating that they had given an "unqualified opinion" meaning that in their opinion, the statements presented fairly the net assets of the PACT Program. Mr. Lee discussed with the Board Note 3 to the Financial Statements which provided the funded status of the Program. The Audit Report is attached for reference and was received as information.

Mr. Lee also provided a Management Letter to the Board which discussed an accounting adjustment that was made because of the duplicate posting of an asset entry. Mr. Lee stated that the error had been addressed and corrected and procedures established to prevent the error from occurring again. Chairman Ivey asked Mr. Lee about language in the Management Letter under the heading Management Judgments and Accounting Estimates. She asked if it would not be appropriate to include the Board in the first sentence of this section since it was the Board's responsibility to review and approve actuarial assumptions. She also pointed out that in the last sentence of this section, the Board did monitor the assumptions and therefore, the language might be more accurate in saying that the

Board would continue to monitor the process. Mr. Lee agreed and stated that he would make the appropriate changes to this section. Chairman Ivey then asked Mr. Lee to clarify for the Board the last paragraph of the letter. Mr. Lee stated that this paragraph did not mean that the Audit Report was not a public record and that it could be provided to the public upon request. The letter is attached for reference.

Ms. Shaia then asked Mr. Lee whether or not the Board should have an audit committee. Mr. Lee stated that in his opinion the Board met often enough and was small enough to serve that function.

The Board expressed appreciation to Mr. Lee for his work and his availability to the staff for assistance.

Agenda Item III. (C.)

Chairman Ivey introduced Mr. Dan Sherman from Mellon Human Resources and Investor Solutions for the 2003 Actuarial Report. Mr. Sherman reported that the results of the valuation showed a funded status of 92.7% with an actuarial deficit of \$51.8 million. He further stated that the deficit had decreased from fiscal year 2002 when the funded status was 90%. The decrease in the deficit was a result of investment performance and actuarial experience more favorable than expected. Mr. Sherman informed the Board that over the life of the Program, the asset return was 8.9% compared to the assumption of 9% and tuition increases were 7.4% compared to the assumption of 7.1%. Mr. Sherman discussed assumptions related to enrollment at the institutions, bias to attend the higher priced institutions, the number of tuition hours being taken per semester and the total hours used by each beneficiary. There was discussion among the Board of the various assumptions and in particular the tuition assumption. It was agreed that for the 2004 Valuation, the assumptions would be discussed again for consideration of necessary changes to reflect Program experience. The 2003 Actuarial Report was received as information and is attached for reference.

Agenda Item IV. (A.)

Mr. Sherman then presented to the Board three scenarios for 2004 PACT Contract Pricing. The various pricing assumptions for each scenario were discussed. The Board agreed that contracts would need to be priced in consideration of the investment return potential and future tuition increases. Because Dr. Malone was temporarily unavailable, a motion was made by Mr. Jones and seconded by Mr. Sherling to delay the adoption of 2004 Contract Pricing until after the small cap manager presentations when Dr. Malone would be available for discussion. The motion unanimously passed.

There was discussion among the Board of the need to regain a fully funded status and to review Program Rules for any necessary changes. There was also agreement that the actuarial assumptions related to tuition and investment return would need to be discussed in more detail.

Agenda Item IV. (B.)

Mr. Jones presented the Investment Committee Report. He informed the Board that the committee had met with the Consultant and after discussion and a review of information provided by Callan, the committee recommended the following small cap managers for consideration and to make presentations to the Board: Small Cap Domestic Value - Earnest Partners, Nicholas Applegate, and Thompson, Siegel & Walmsley
Small Cap Domestic Growth – Bank of New York, State Street Research, and Turner Investment Partners.

Mr. Pellecchia provided information to the Board on all six managers. The information is attached for reference.

The first presentations were for a small cap domestic growth manager. The first presenters, Mr. Shane McMahon and Mr. Jeffrey Thibault represented the Bank of New York. The second presenters were Mr. Peter Hadelman and Mr. Dino Davis from State Street. The final presenters representing Turner Investment Partners were Mr. Scott Kearney and Mr. William McVail. Each firm provided informational booklets which are attached for reference. Each firm also presented information on their firm, discussed their investment process and provided information on their fee structure.

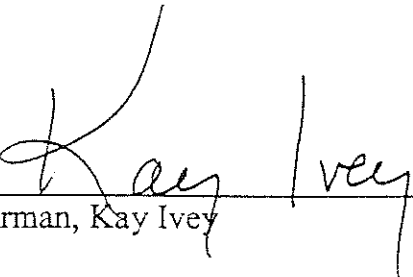
The second group of presentations was for a small cap domestic value manager. The first presenters, Mr. Paul Viera and Dr. Miro Pastnak represented Earnest Partners. The second presenters were Mr. Mark Stuckelman and Mr. Jack Gastler from Nicholas Applegate. The final presenters were Mr. Frank Reichel and Mr. Lawrence Gibson, representing Thompson, Siegel & Walmsley. Each firm provided informational booklets which are attached for reference; and each presented information on their firm, their investment process and fee structure.

The Board discussed and compared information for each group of firms, in consultation with Mr. Pellecchia. Following discussion, a motion was made by Mr. Sherling and seconded by Ms. Shaia to contract with State Street as the small cap growth manager and Thompson Siegel & Walmsley as the small cap value manager. After further discussion Ms. Shaia, Mr. Sherling and Ms. Ivey voted for approval. Mr. Jones, Dr. Sutton, Dr. Malone and Mr. Drinkard voted against the motion. A motion was then made by Dr. Malone and seconded by Dr. Sutton to contract with State Street as the small cap growth manager and Earnest Partners as the small cap value manager and to give Mr. Pellecchia the authority to negotiate

the fee at 75 basis points not to exceed 85 basis points. Mr. Jones, Dr. Malone, Ms. Shaia, Mr. Sherling, Mr. Drinkard and Dr. Sutton voted for approval with Ms. Ivey voting no. The motion carried.

The Board then resumed discussion of 2004 PACT Contract Pricing. Dr. Malone stated that he would have more information within the next several weeks on tuition increases and therefore, the Board agreed to delay the adoption of contract pricing. A motion was made by Ms. Shaia and seconded by Mr. Sherling to table the adoption of 2004 Contract Pricing until the April 1st meeting.

There being no further business, the meeting was adjourned at 5:30 p.m.



Chairman, Kay Ivey



Recording Secretary, Brenda Emfinger

Agenda Item IV. (B.)
Approved Resolution by the
PACT Board of Trustees at its meeting on February 25, 2004

Topic: Selection of Small Cap Domestic Equity Managers

Whereas, the procurement of professional service providers is subject to the requirements of Section 41-16-72(4), Code of Alabama (1975); and,

Whereas, the Board of Trustees desires to select a value and a growth small cap domestic equity manager through a competitive selection process open to all qualified business entities; and,

Whereas, the Board of Trustees ("Board") has issued and received 47 Requests for Proposals for Domestic Small Cap Equity Management; and

Whereas, the Investment Committee, in consultation with the Consultant, has evaluated the Proposals and the Board has requested oral presentations from three value managers and three growth managers;

Therefore, Be It Resolved, that the Board has considered several factors, including each firm's qualifications, performance, and fees to determine the firm that can best meet the needs of PACT, and has selected Earnest Partners as the Small Cap Domestic Value Equity Manager and State Street as the Small Cap Domestic Growth Manager. The Consultant is authorized to negotiate and the Treasurer execute contracts with these firms.

**THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION
PROGRAM**

MEETING OF THE BOARD OF DIRECTORS

April 8, 2004

MINUTES

Present:

Chairman Kay Ivey
Dr. Mike Malone
Dr. Joe Sutton
Mr. Ed Sherling
Mr. Ricky Jones
Mr. Bill Drinkard
Mr. Willie Huff
Mr. Christopher Turner representing Lt. Governor Lucy Baxley

Absent:

Ms. Jacquelyn Shaia
Dr. Roy Johnson

Others Present:

Mrs. Daria Story, Assistant Treasurer and Chief Operating Officer
Mr. Anthony Leigh, Deputy Treasurer
Mrs. Brenda Emfinger, College Savings Programs Director
Mr. Bud Pellecchia, Investment Consultant, Callan Associates
Mr. Dan Sherman, Actuary, Mellon Human Resources and Investor Solutions
Mr. David Gorman, Managing Director, Bear Stearns Asset Management
Mr. David Silk, Managing Director, Bear Stearns Asset Management
Mr. Jeffrey Simon, Managing Director, Bear Stearns Asset Management
Mr. Eugene Stein, Vice Chairman, Capital Guardian Trust Company
Ms. Suzanne Schechter, Relationship Manager, Capital Guardian Trust Company
Mr. Steven Irons, Equity Portfolio Manager, Wellington Management Company
Mr. Richard Smith, Business Development Manager, Wellington Management Company

Pursuant to written and public notice, a meeting of the Board of Directors of the PACT Program was held in the 2nd Floor Conference Room of the RSA Union Building, Montgomery, Alabama on April 8, 2004.

The meeting was called to order by Chairman Kay Ivey at 10:30 a.m. Treasurer Ivey presented the minutes of the February 25, 2004 board meeting. A motion was made by Mr. Huff, seconded by Mr. Jones for approval as written. The motion unanimously carried.

Agenda Item III. (A.)

Mr. Bud Pellecchia was called on to discuss Commission Recapture with the Board. Mr. Pellecchia provided information on the current program, stating that Abel Noser and The Citation Group were providing this service which returned money to the program from trades made through these firms. After discussion, it was agreed that Mr. Pellecchia would bring proposals from the current firms and three to four additional firms to the Board at the May meeting for consideration.

Agenda Item III. (B.)

Mr. Ricky Jones gave the Investment Committee report. He discussed with the Board the process used to review proposals received from large cap value equity managers. He stated that the committee recommended hearing presentations from Bear Stearns Asset Management, Capital Guardian Trust Company, and Wellington Management Company. Information was provided on each manager and is attached for reference. A motion was made by Mr. Drinkard and seconded by Dr. Malone to accept the recommendation. The motion unanimously carried.

Chairman Ivey asked the Board for discussion concerning the exclusion of any types of investments. After lengthy discussion, it was the consensus of the Board that while they were socially conscious of various issues related to investments, managers had been hired to invest for the highest returns to benefit the Fund and resources would be maximized to benefit the participants.

Agenda Item IV. (A.)

Chairman Ivey presented information to the Board on board member liability coverage through the General Liability Trust Fund. She informed the Board that coverage could be provided for less than \$100 per year per member. After discussion, a motion was made by Dr. Sutton and seconded by Mr. Huff for approval of the resolution for purchase of liability insurance for the Board. The motion received unanimous approval; the resolution is attached for reference.

Agenda Item IV. (B.)

Chairman Ivey called on Ms. Story for an explanation of the Valuation and contract pricing. Ms. Story explained that the Valuation was a "big picture" of the status of the fund for all contracts purchased and that the contract pricing was a one year picture took into consideration various factors related to the contracts being purchased for that particular year. Ms. Ivey then called on Dan Sherman, the PACT Actuary, to discuss the 2004 Actuarial Valuation of the Trust Fund.

Mr. Sherman presented information on the assumptions used for the Valuation. The Board discussed, in particular, the assumption related to college tuition costs. After discussion and upon recommendation from the Actuary, the Board approved a change in the assumption related to tuition increases, from 7.1% to 7.5% because of higher than expected tuition increases and the expectation of additional tuition increases for the next few years. A motion was made by Mr. Huff and seconded by Mr. Sherling to adopt the resolution which provided the assumptions to be used in the 2004 PACT Trust Fund Valuation. The motion was unanimously approved; the resolution is attached for reference.

Agenda Item IV. (C.)

Mr. Sherman presented information to the Board for consideration in the 2004 PACT Contract Pricing. The Board discussed college tuition increases, investment return and various factors impacting the liability incurred from the sale of contracts. It was the consensus of the Board that contracts should be priced with the expectation of meeting the future liability. Based on the discussion and recommendation of the Actuary, a motion was made by Mr. Jones and seconded by Mr. Huff to adopt Scenario 4 as described in the Resolution. The motion unanimously carried; the resolution is attached for reference.

Agenda Item IV. (D.)

Mr. Bud Pellecchia, the PACT Investment Consultant, gave a brief overview of the firms to be interviewed for large cap value equity management. The first firm to present was Bear Stearns Asset Management. Mr. David Gorman, Mr. David Silk and Mr. Jeffrey Simon represented the firm and discussed their philosophy, process and discipline. The information presented is attached for reference.

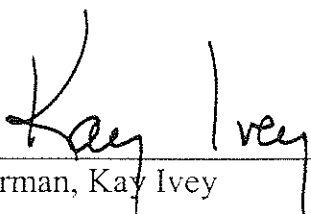
Mr. Eugene Stein and Ms. Suzanne Schechter presented information on their firm, Capital Guardian Trust Company. They discussed their philosophy, process and discipline. The information presented is attached for reference.

Wellington Management Company was the last firm to present, being represented by Mr. Steven Irons and Mr. Richard Smith. They presented information on the firm including their philosophy, process and discipline. The information presented is attached for reference.

The Board then discussed the three firms, and based on the information provided and recommendation of the Consultant, a motion was made by Mr. Jones, seconded by Mr. Sherling to adopt the resolution hiring Bear Stearns Asset Management as a large cap value equity manager, provided the fee could be negotiated within a reasonable range to the lowest fee which had been offered by Capital Guardian; if the fee could not be negotiated, Capital Guardian would be

hired at the fee quoted. The motion was unanimously approved and the resolution is attached for reference.

There being no further business, the meeting was adjourned at 3:20 p.m.



Chairman, Kay Ivey



Recording Secretary, Brenda Emfinger

Topic: Liability Insurance for Directors

**Adopted Resolution by the
Board of Trustees at its meeting on April 8, 2004**

Whereas, the Board of Directors of the Wallace-Folsom College Savings Investment Plan is authorized by Title 16, Sections 33C-1 through 33C-13, Code of Alabama, 1975, to exercise all powers necessary or appropriate for the management of the college savings programs; and

Whereas, it is in the best interest of the programs that all directors enjoy an equal degree of protection from civil liability in return for their service on behalf of the programs; and

Whereas, the directors, as agents of the state, are qualified for coverage by the General Liability Trust Fund;

Therefore, Be It Resolved, that the Board hereby authorizes the Treasurer to take appropriate steps to obtain coverage by the General Liability Trust Fund for the directors who are not already covered based upon state office or employment, and to pay as an administrative expense of the trust funds the premium for the current fiscal year, retroactive to October 1, 2003 and for each fiscal year thereafter.

**Adopted Resolution by the
PACT Board of Trustees at its meeting on April 8, 2004**

Topic: 2004 PACT Trust Fund Valuation

Whereas, the Board of Trustees is responsible for the assumptions used in the annual fiscal year end valuation of the trust fund; and,

Whereas, Dan Sherman, Mellon Human Resources and Investor Solutions, the actuarial consultant, has provided recommendations, assumptions and advice to the Board, and the Board has had lengthy discussion and consideration of these assumptions;

Therefore, Be It Resolved, that the Board adopts the following assumptions to be used in the September 30, 2004 trust fund valuation:

Investment Return: 9%

Tuition Increases: 7.5%

Number of Hours of Tuition Benefits Used: 128

Enrollment of PACT Beneficiaries: 85% four-year universities; 15% junior colleges

Contract Cancellations: 0 for age 0 through 9th grade; 1% 10th grade; 2% 11th grade; 3% 12th grade

Payment of Tuition and Mandatory Fees: September 1 and February 1

Death and Disability: none

**Adopted Resolution by the
PACT Board of Trustees at its meeting on April 8, 2004**

Topic: 2004 PACT Contract Pricing

Whereas, the Board of Trustees is responsible for the pricing of contracts for each enrollment period; and,

Whereas, Dan Sherman, Mellon Human Resources and Investor Solutions, the actuarial consultant, has provided recommendations, assumptions and advice to the Board, and the Board has had lengthy discussion and consideration of the pricing; and,

Whereas, the Board deems the following assumptions to be appropriate for the 2004 contract pricing:

Investment Return: 7%, 8th and 9th grade, 7.25% 6th and 7th grade, 7.5% 4th and 5th grade, 7.75% 2nd and 3rd grade, and 8% or all other grades and ages

Tuition Increases: 10% for 2004 and 2005, 9% for 2006, 8% for 2007 and 2008 and 7.1% thereafter

Number of Hours of Tuition Benefits Used: 135

Enrollment of PACT Beneficiaries: 85% at four year universities, 15% at junior colleges

Contract Cancellations: none

Payment of Tuition and Mandatory Fees: 9/1

Administrative Fees: \$75 for lump sum payments and \$3 per monthly payment

Therefore, Be It Resolved, that the Board adopts 2004 PACT contract pricing as follows: Scenario 4

2004 Alabama PACT Contract Pricing

<u>*Current Grade/Age</u>	<u>Projected Enrollment Year</u>	<u>Single Payment Plan</u>	<u>5-Year Monthly Payment Plan</u>	<u>Extended Monthly Payment Plan (1)</u>
9th grade	2008-2009	\$21,670	N/A	\$567
8th grade	2009-2010	\$21,690	N/A	\$459
7th grade	2010-2011	\$21,333	\$422	\$385
6th grade	2011-2012	\$21,304	\$421	\$337
5th grade	2012-2013	\$20,809	\$414	\$298
4th grade	2013-2014	\$20,732	\$412	\$271
3rd grade	2014-2015	\$20,111	\$402	\$246
2nd grade	2015-2016	\$19,991	\$399	\$229
1st grade	2016-2017	\$19,260	\$387	\$211
Age 5	2017-2018	\$19,100	\$384	\$199
Age 4	2018-2019	\$18,941	\$381	\$189
Age 3	2019-2020	\$18,784	\$377	\$180
Age 2	2020-2021	\$18,628	\$374	\$173
Age 1	2021-2022	\$18,474	\$371	\$166
Infant	2022-2023	\$18,320	\$368	\$160
Infant born between 9/1/04 and 12/30/04	2023-2024	\$18,168	\$365	\$155

*If the beneficiary is currently in school, find his or her grade as of September 1, 2004. For purposes of this table, a beneficiary who is now in preschool or kindergarten is not considered to be in school. If the beneficiary is not in school find his or her age as of September 1, 2004.

**Adopted Resolution by the
PACT Board of Trustees at its meeting on April 8, 2004**

Topic: Selection of Large Cap Domestic Equity Manager

Whereas, the procurement of professional service providers is subject to the requirements of Section 41-16-72(4), Code of Alabama (1975); and,

Whereas, the Board of Trustees desires to select a large cap value domestic equity manager through a competitive selection process open to all qualified business entities; and,

Whereas, the Board of Trustees ("Board") has issued and received thirty eight Requests for Proposals for Domestic Large Cap Equity Management; and

Whereas, the Investment Committee, in consultation with the Consultant, has evaluated the Proposals and the Board has requested oral presentations from three managers;

Therefore, Be It Resolved, that the Board has considered several factors, including each firm's qualifications, performance, and fees to determine the firm that can best meet the needs of PACT, and has selected Bear Stearns Asset Management. The Consultant is authorized to negotiate and the Treasurer execute a contract with this firm.

THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

MEETING OF THE BOARD OF DIRECTORS

May 19, 2004

MINUTES

Present:

Chairman Kay Ivey

Dr. Mike Malone

Dr. Joe Sutton

Mr. Ricky Jones

Ms. Jacquelyn Shaia

Mr. Ed Sherling

Mr. Christopher Turner representing Lt. Governor Lucy Baxley

Absent:

Dr. Roy Johnson

Mr. Willie Huff

Mr. Bill Drinkard

Others Present:

Mrs. Daria Story, Assistant Treasurer and Chief Operating Officer

Mr. Anthony Leigh, Deputy Treasurer

Mrs. Brenda Emfinger, College Savings Programs Director

Mr. Bud Pellecchia, Investment Consultant, Callan Associates

Mr. John Dale, Peregrine Capital Management

Mr. Reid Kilberg, Peregrine Capital Management

Mr. George Brown, George Brown & Associates

Mr. Dale Goode, PACT Purchaser

Mr. Bill Garrett, Attorney General's Office, Treasurer's Legal Counsel

Pursuant to written and public notice, a meeting of the Board of Directors of the PACT Program was held in the 3rd Floor Conference Room of the RSA Union Building, Montgomery, Alabama, on May 19, 2004.

The meeting was called to order by Chairman Kay Ivey at 10:30 a.m. Treasurer Ivey presented the minutes of the April 8, 2004 board meeting. A motion was made by Ms. Shaia, seconded by Dr. Malone for approval as written. The motion unanimously carried.

Agenda Item III.

Chairman Ivey introduced Mr. Dale Goode, a PACT purchaser who had asked to present his concerns to the Board. Mr. Goode has four PACT contracts and had expressed his opinion that all of his contracts should be guaranteed. He asked for a written guarantee from the board that full benefits would be paid for all of his contracts and expressed his desire that the Board seek "full faith and credit" for the program, or establish some type of "rainy day" fund to secure all future benefits. Treasurer Ivey explained that in the PACT contracts issued prior to 1995, the MasterPACT included the language "the Program guarantees" but that beginning in 1995, the word "guarantee" was changed to the word "provide". Chairman Ivey explained that the Board was very conscientious about the program and believed that benefits would be paid, and certainly had been paid without a problem for the many beneficiaries attending college. She also advised Mr. Goode that there was not a guarantee, just as most investment strategies were not guaranteed. The Board discussed the various issues related to his request. Mr. Bill Garrett, Treasury legal counsel, explained to Mr. Goode that the Alabama state constitution prohibited giving "full faith and credit" to the program. Mr. Goode was assured that everything possible would be done to make sure that all benefits were paid for all participants. Dr. Malone suggested that Mr. Goode be involved with the Commission on Higher Education to influence policy issues related to the cost and affordability of higher education. Dr. Sutton further reiterated the board's diligence in securing future benefits and explained that all tuition payments were being made on time and without problems. He further explained that the board had reviewed assumptions, made adjustments where advisable and that given the long time horizon, fully expected to meet all future obligations. Chairman Ivey thanked Mr. Goode for his willingness to bring his concerns to the Board and reassured him that the Board would be diligent in their efforts to address his concerns.

Agenda Item IV. A. (2.)

Chairman Ivey called on Mr. Pellecchia to give the quarterly investment report. Mr. Pellecchia discussed with the board, market overview, fund performance and individual manager performance. Mr. Pellecchia noted that performance had lagged the index but that new managers had been hired and performance should improve. Following up on previous discussion regarding the Russell 200 index for Rhumblin, Mr. Pellecchia stated that this index is an appropriate index for Rhumblin and recommended that the index remain the same. The Board concurred. Treasurer Ivey asked Mr. Pellecchia if a higher percentage of the funds should be indexed. Mr. Pellecchia stated that 20% of the overall assets and 36% of the domestic equity allocation are invested passively, which is common for this size fund. The board expressed concern over the performance numbers and questioned the advisability of using active managers. Mr. Pellecchia stated that active management provided more risk control and should provide a return

greater than the index over time. He further stated that performance of the markets over the last five years had not really been driven by fundamentals. Going forward he stated that he expects this to change, which will favor active management. The investment report is attached for reference.

Mr. Pellecchia then distributed to the Board proposed changes to the Investment Policy. He stated that the changes were being recommended because of exceptions requested by various managers. Because a revision of the Investment Policy was not on the Agenda, a motion was made by Mr. Ricky Jones to allow the issue for decision. There was no second and the motion failed. It was agreed that Mr. Pellecchia would review the policy for any other recommended changes and work with the staff and Investment Committee to have a proposal for distribution to the Board prior to the August regular meeting. Mr. Jones noted that the current policy incorporates a "watch list" and asked Mr. Pellecchia to review this section. Concern was expressed over the length of time allowed for managers to improve performance and Mr. Pellecchia was asked for guidance in this matter.

Agenda Item IV. (B.)

Chairman Ivey informed the Board that the Foster Child Scholarship had been awarded to Rebecca Ferguson from Tuscaloosa. A committee of the Foster Care Division of The Department of Human Resources had selected the recipient and the scholarship had been presented by Chairman Ivey at a ceremony in Tuscaloosa. Dr. Malone suggested that Chairman Ivey send a letter about the recipient to Dr. Richardson, President of Auburn University, since Ms. Ferguson had been accepted and planned to attend Auburn. Chairman Ivey concurred and agreed to do so.

Agenda Item V. (A.)

Mr. Pellecchia presented information to the Board on six firms that had sent proposals for a commission recapture program for the trust fund. Mr. Pellecchia stated that based on experience, revenue sharing and the current relationship, he recommended keeping Abel Noser and also adding Bank of New York Brokerage. A motion was made by Mr. Jones, seconded by Ms. Shaia to approve the resolution for Commission Recapture through Abel Noser and Bank of New York Brokerage. The motion received unanimous approval. The information and resolution are attached for reference. It was noted that a letter of termination would be sent to Merrill Lynch who would not be retained for this service.

Agenda Item V. (B.)

Ms. Emfinger was asked to discuss with the Board the proposed changes to the Rules, MasterPACT and Disclosure Statement. Ms. Emfinger informed the Board that the MasterPACT and Disclosure Statement had been reviewed by legal counsel with no recommended changes.

Ms. Emfinger began with the Rules and called the Board's attention to a proposed change in the exclusions for mandatory fees. Ms. Emfinger informed the Board that at inception, mandatory fees were covered under the contract because there were public institutions that had significant mandatory fees with smaller tuition charges. She further explained that exclusions had always been made because of the definition of mandatory fees. The recommended change would give a specific listing of excluded fees and covered fees. After discussion of the listing, the Board asked that the Student athletic/activity/service/union building fees be placed on the list of exclusions. The Board also asked that staff prepare a proposal for the 2005 Rules where mandatory fees would be paid at a flat rate.

Ms. Emfinger then discussed with the Board a proposal to expand the definition of "Current Tuition Value" and to require all substitute beneficiaries to have the same 10 year period for the use of benefits, regardless of usage on the contract. A motion was made by Mr. Jones, seconded by Ms. Shaia for approval of the changes to the Rules. The motion was unanimously approved.

Ms. Emfinger then discussed the changes to the MasterPACT, calling the Board's attention to the addition of a specific section titled "Disclaimer". She informed the board that additional nonsubstantial changes were made, as marked on the copy provided. Nonsubstantial changes to the Disclosure Statement were also presented. After discussion, a motion was made by Mr. Jones for approval of the resolution adopting the proposed changes to the Rules, MasterPACT and Disclosure Statement. The motion was seconded by Dr. Malone and received unanimous approval. The proposed changes and resolution are attached for reference.

Agenda Item V. (C.)

Chairman Ivey presented a resolution for consideration to allow the Treasurer and specific staff to have the authority to communicate and provide instructions to trust fund vendors. Ms. Shaia suggested that the specific names be replaced with titles and that additional language be added giving specific authority to the Chairman to remove this authority. With the suggested changes, a motion was made by Dr. Malone to approve the resolution. The motion was seconded by Ms. Shaia with unanimous approval. The resolution, with changes as specified, is attached for reference.

Agenda Item VI. (A.)

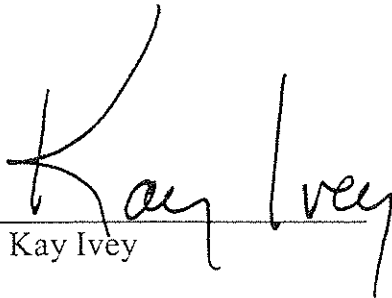
Dr. Malone briefly discussed the reauthorization of the Higher Education Act and his expectation of massive unfunded mandates. He expressed concern about the affordability of higher education, stating that federal initiatives such as this would only exacerbate the problem. Chairman Ivey informed the Board that the College Savings Plans Network was working on having the 529 prepaid plans treated the same as the 529 savings plans in financial aid determination. Currently, assets of a 529 savings account are considered a parental asset while assets of a 529 prepaid

account are considered a student asset, which means a greater reduction in financial aid assistance.

Agenda Item VI. (B.)

Chairman Ivey introduced Mr. John Dale and Mr. Reid Kilberg, representatives for Peregrine Capital Management, who serves as a current large cap equity manager for the trust fund. Mr. Dale and Mr. Kilberg discussed with the Board various aspects of their management of the PACT funds. Information was provided and is attached for reference.

There being no further business, the meeting was adjourned at 2:00 p.m.



Chairman Kay Ivey



Recording Secretary Brenda Emfinger

**Adopted Resolution by the
PACT Board of Trustees at its meeting on May 19, 2004**

Topic: Selection of Provider for Commission Recapture

Whereas, the Board of Trustees desires to enter into an agreement with a firm qualified to provide commission recapture services for the Fund; and,

Whereas, the PACT Investment Consultant has researched qualified firms and solicited and received proposals from six qualified firms; and,

Whereas, legal counsel to the Treasurer agrees that the agreement does not require any expenditure of state funds; and

Whereas, legal counsel to the Treasurer has determined that, absent expenditure of state funds, Code of Alabama (1975) § 41-16-72 does not apply; and

Whereas, the PACT Investment Consultant has evaluated the Proposals and has recommended Abel Noser and Bank of New York Brokerage;

Therefore, Be It Resolved, that the Board has approved Abel Noser and Bank of New York Brokerage to provide Commission Recapture according to the terms contained in the proposal.

**Adopted Resolution by the
PACT Board of Trustees at its meeting on May 19, 2004**

**Topic: Revisions to the PACT Rules, MasterPACT and Disclosure Document
for 2004**

Whereas, the Board of Trustees ("Board") is responsible for the annual review of the PACT Rules and MasterPACT which provide guidelines for the Program, and the Disclosure Statement; and,

Whereas, the Board has considered and discussed the revisions to the Rules, MasterPACT and Disclosure Statement proposed by staff;

Therefore, Be It Resolved, that the Board approves the proposed changes to the PACT Rules, MasterPACT and Disclosure Statement as outlined in the attached documents; and,

Further Resolved, that the staff of the PACT Program is authorized and instructed to incorporate these changes in the Rules, MasterPACT and Disclosure Statement prior to the 2004 enrollment period.

Adopted Resolution by the PACT/ACES Board of Trustees
TOPIC: A Resolution Designating Representatives of the Plan

This Resolution is made by the Board of the Wallace-Folsom Plan
("Board") on the 19th day of May, 2004:

The Board hereby resolves:

1. The Treasurer, Assistant Treasurer, College Savings Programs Director, and College Savings Programs Coordinator are authorized to direct parties contracted with the Board regarding the distribution of assets of the Wallace-Folsom Plan account.
2. Specimen signatures on the Certified Resolution are certified to be valid representations of the authorized signatures.
3. The Treasurer, Assistant Treasurer, College Savings Programs Director, and College Savings Programs Coordinator are duly appointed to serve as representatives of the Wallace-Folsom Plan for the purposes of communication with corporate entities and individuals. They shall serve until resignation, removal by the Board Chairman, or incapacity to act.
4. Investment agencies, corporate entities and individuals contracted with the Board are authorized to rely upon written instruction from The Treasurer, Assistant Treasurer, College Savings Programs Director, and College Savings Programs Coordinator with respect to the matters under the terms of the Wallace-Folsom Plan and by law until its receipt of signature cards and authority with respect to other person(s) to serve in such capacity.
5. The Treasurer, Assistant Treasurer, College Savings Programs Director, and College Savings Programs Coordinator are authorized to receive trust financial statements and/or other trust financial information.

IN WITNESS WHEREOF the Board has approved this resolution as of the day and year first above written and the resolution is effective and operative as to each of the parties as herein provided.

BOARD OF TRUSTEES OF
THE PACT AND ACES TRUST FUNDS

THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM

MEETING OF THE BOARD OF DIRECTORS

August 25, 2004

MINUTES

Present:

Chairman Kay Ivey
Mr. Willie Huff
Mr. Ricky Jones
Dr. Mike Malone
Dr. Harold McGee
Mr. Ed Sherling
Mr. Christopher Turner representing Lt. Governor Lucy Baxley

Absent:

Mr. Bill Drinkard
Dr. Roy Johnson
Ms. Sarah Moore

Others Present:

Mrs. Daria Story, Assistant Treasurer and Chief Operating Officer
Mr. Anthony Leigh, Deputy Treasurer
Mrs. Brenda Emfinger, College Savings Programs Director
Mr. Roman McLeod, College Savings Programs Coordinator
Mr. Mike Manasco, Treasury Legal Counsel
Mr. Bud Pellecchia, Investment Consultant, Callan Associates
Mr. Jay Kloepper, Callan Associates
Mr. George Brown, George Brown & Associates

Pursuant to written and public notice, a meeting of the Board of Directors of the PACT Program was held in the 3rd Floor Conference Room of the RSA Union Building, Montgomery, Alabama on August 25, 2004.

Agenda Item II.

The meeting was called to order by Chairman Kay Ivey at 10:20 a.m. Treasurer Ivey presented the minutes of the May 19, 2004 board meeting. A motion was made by Mr. Jones, seconded by Mr. Huff for approval as written. The motion unanimously carried.

Agenda Item III. A. (1.)

Ms. Emfinger was called on for a program report. She reported that enrollment was in process with 250 applications received. She informed the Board that work was progressing on the on-line access for purchasers and direct payment to the colleges/universities. She provided a copy of a memo that was sent to the parents of students where mandatory fees had been paid. The memo explained the change in the list of excluded mandatory fees as approved by the Board at the last meeting.

Agenda Item III. A. (2.)

Chairman Ivey then asked for an investment report from the Consultant. Mr. Pellecchia discussed the Quarterly Investment Report that had been mailed to the Board prior to the meeting and which is attached for reference. He briefly discussed an overview of the markets and then directed attention to asset allocation and manager performance. He stated that asset allocation was consistent with the Policy. The value of the assets declined from \$637,389,500 on March 31, 2004 to \$627,507,215 on June 30, 2004, primarily attributable to the use of over \$11 million in cash to pay benefits. For the quarter, the total fund returned .24% and for the three quarter cumulative the return was 10.9%.

For the quarter, small cap lagged the benchmark; State Street and Earnest Partners were funded for the first time during the quarter with Citigroup being terminated. Peregrine also lagged the benchmark for the quarter due to stock selection which was overweighted in financials and underweighted in defensive sectors like energy, consumer staples and healthcare. Mr. Pellecchia stated that they were ahead of the benchmark for the 3 and 5 year periods and above the median of their peers. Mr. Huff asked Mr. Pellecchia if they called managers to discuss underperformance. Mr. Pellecchia stated that they had called Peregrine and discussed performance believing that while their style had been out of favor, they were still a strong manager and would still be recommended.

Mr. Pellecchia stated that Rhumblin was doing what they were hired to do which is to mimic the Index. He then discussed Bank of Ireland; Callan had performed an on-site review and provided information concerning their findings which is attached for reference. He stated that they believed that the organization is stable and that there had not been a change in the personnel managing our funds. He further stated that their performance had lagged because they avoided emerging markets and consistently invested in large cap, high quality stocks. As the market has broadened Mr. Pellecchia stated they no longer view Bank of Ireland as an optimal "stand alone" international equity manager and recommended the Board diversify these assets by selecting another international equity manager with a complementary style. Following discussion, a motion was made by Dr. Malone to accept the Consultant's recommendation by having the Investment Committee work with the Consultant to issue a Request for Proposal for a complementary international equity manager so that a selection could be made at the December

board meeting. The motion was seconded by Mr. Sherling and unanimously approved.

Mr. Pellecchia ended his report with domestic fixed income, stating that both managers had performed well.

Agenda Item III. (B.)

Recent articles were provided for review and were received as information.

Agenda Item III. (C.)

Information on the status of all state prepaid college tuition programs was provided for review and was received as information.

Agenda Item III. (D.)

Chairman Ivey called the Board's attention to pages 24 – 26 of their packet, stating that this was information received from the PACT Actuary in response to the Board's request for guidelines on action to be taken concerning the funded status of the Trust Fund. Discussion was delayed until after the presentation on the Asset/Liability study.

Agenda Item III. (E.)

Updated information for the Board Orientation Manuals was provided and received as information.

Agenda Item IV.

Chairman Ivey introduced Mr. Jay Kloepper from Callan Associates to discuss the results of the Asset/Liability study. The study was distributed prior to the meeting and is attached for reference. Mr. Kloepper explained the process used in conducting the study and described the results of the study.

Mr. Kloepper stated that they had worked extensively with the PACT Actuary in understanding the liabilities and the structure of contract pricing. He further stated that Dan Sherman, the Actuary, was comfortable with the study in that it was consistent with his methods for the projection of the liabilities. The object of the study was to project the reasonable expectations for the current investment program to see if the assets would be sufficient to cover the projected liabilities and if not, what changes could be made to enhance the results. The study concluded that a 9% investment return was a heroic assumption, not impossible, but not the expected case given Callan's expectations for a low interest rate, low inflation, low return capital market environment going forward. He further explained that 9% could be achieved by taking on more risk, such as increasing exposure to equities, pursuing different investment opportunities with higher alphas, or adding asset classes. He also explained that the current investment program could average a 9% return if it could achieve upper quartile performance. He called the Board's attention to various options presented in the study which

concluded that the fund was currently in good shape and there was plenty of time to make adjustments to achieve the return needed. He stated that there were no quick fixes but by taking a longer term approach, the outlook was positive. Mr. Kloepper discussed the unanticipated increase in tuition inflation which was a major contributing factor to the funded status decline.

The models developed in the study projected the assets and liabilities assuming that 2000 additional contracts would be sold each year at the conservative pricing of the last two years. 7.5% was used as an average tuition inflation factor with all other assumptions unchanged. Assuming the 9% return assumption and all other assumptions are met, the plan returns to a fully funded status in five years. Capital market simulations were made using Callan's asset assumptions for twenty years integrated with various asset mixes, none of which are expected to generate a 9% return in the expected case. The simulations show that only two asset mixes, both more aggressive than the current asset allocation, would get to a fully funded status but it would take longer than if the plan achieved the 9% return assumption, and the other three mixes do not completely catch up. In addition, cash flow was analyzed for the next five years; it was concluded that the asset allocation should not be affected by cash flow since benefits could be paid through income, gains, rebalancing and cash coming into the fund. Net cash flow has recently turned negative, meaning benefit payments exceed receipts from contract sales, but the negative cash flow is projected to remain below 3% of total assets in the expected case projection, a level small enough to be managed without an explicit allocation to cash or cash-generating investment.

The study was concluded with various factors to consider in long range planning to return the fund to a fully funded status. Mr. Kloepper reiterated, in conclusion, that a 9% investment return was a heroic assumption and higher than the expected case return for even the most aggressive asset mix examined in the study. He further stated that there was a long time horizon for the Board to work towards achieving the goal of growing the Fund's assets to meet the liabilities while minimizing the risk of a reduction in the funded status. In summary, he stated that the results of the study show that with the various asset mixes used over the next six years, none will attain the 9% return in the expected case and none will achieve a fully funded status, but none will leave the fund in a lower funded status; should a 9% return be achieved with a 7.5% increase per year in tuition, the funded status would go to 104% in six years. All results were dependent on selling 2000 contracts per year priced conservatively as they were this year. Following discussion, Chairman Ivey appointed a Long Range Planning Committee to take the results of the study, along with the information provided by the Actuary to develop guidelines and recommendations for the Board concerning these issues. The committee appointed was Mr. Ed Sherling, Chairman; Ms. Sarah Moore, Mr. Ricky Jones and Dr. Mike Malone.

Agenda Item V. (A.)

Chairman Ivey asked Mr. Pellecchia to discuss the new Investment Policy with the Board. The Policy was discussed in depth, section by section. The Board requested that a section be added describing the role of the Custodian and also requested that proxy voting and quarterly reports be submitted to the Consultant for reporting to the Board. Additional minor changes were recommended; the marked copy of the policy is attached for reference.

Following discussion, a motion was made by Mr. Sherling to approve the resolution adopting the new Investment Policy, with the specified changes. The motion was seconded by Dr. McGee and unanimously approved.

Agenda Item V. (B.)

Chairman Ivey called the Board's attention to the Resolution and Request for Proposal for a Trust Fund Custodian. A motion was made by Dr. Malone, seconded by Mr. Jones to adopt the resolution. The motion was unanimously approved.

Agenda Item VI.

Chairman Ivey introduced Ms. Fiona Gibbons and Mr. John Landau from the Bank of Ireland for a manager presentation. Information was presented and is attached for reference. Ms. Gibbons and Mr. Landau discussed with the Board various factors related to recent performance as well as their style of management. Mr. Huff asked about their stock selection of mostly large cap stocks and they agreed that this was their primary focus.

Agenda Item VII.

Chairman Ivey announced the appointment of the Investment Committee. The following were appointed: Mr. Ricky Jones, Chairman; Mr. Willie Huff, Dr. Harold McGee and Dr. Roy Johnson.

Chairman Ivey informed the Board that the next regular meeting was scheduled for December 8, 2004.

There being no further business, the meeting was adjourned at 2:30 p.m.


Chairman Kay Ivey


Recording Secretary Brenda Emfinger

**THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION
PROGRAM**

MEETING OF THE BOARD OF DIRECTORS

December 8, 2004

MINUTES

Present:

Chairman Kay Ivey
Mr. Willie Huff
Mr. Ricky Jones
Dr. Mike Malone
Ms. Sarah Moore
Dr. Harold McGee
Mr. Ed Sherling
Mr. Christopher Turner representing Lt. Governor Lucy Baxley

Absent:

Mr. Bill Drinkard
Dr. Roy Johnson

Others Present:

Mrs. Daria Story, Assistant Treasurer and Chief Operating Officer
Mr. Anthony Leigh, Deputy Treasurer
Mrs. Brenda Emfinger, College Savings Programs Director
Mr. Roman McLeod, College Savings Programs Coordinator
Mr. Mike Manasco, Treasury Legal Counsel
Mr. Bud Pellecchia, Investment Consultant, Callan Associates

Pursuant to written and public notice, a meeting of the Board of Directors of the PACT Program was held in the 3rd Floor Conference Room of the RSA Union Building, Montgomery, Alabama on December 8, 2004.

Agenda Item II.

The meeting was called to order by Chairman Kay Ivey at 10:25 a.m. Treasurer Ivey presented the minutes of the August 25, 2004 board meeting. A motion was made by Mr. Sherling, seconded by Mr. Jones for approval as written. The motion unanimously carried.

Agenda Item III. A. (1.)

Chairman Ivey called on Ms. Emfinger for the PACT Program report. Ms. Emfinger reported that the 2004 trust fund audit was in progress and that PACT purchasers now have on-line access to their accounts. Mr. Jones asked Ms. Emfinger about enrollment in 2004 and how it compared to last year. Ms. Emfinger explained that fewer PACT contracts were sold this year but that the combination of enrollment in the Alabama Higher Education 529 Fund and PACT was an increase in the number of families saving for college.

Agenda Item III. A. (2.)

Chairman Ivey called on Mr. Pellecchia for the quarterly trust fund investment report. Mr. Pellecchia informed the board that Callan could provide (for a fee) a comparative analysis of the Van Kampen Funds which had been discussed in the Alabama Higher Education 529 Fund board meeting. This was briefly discussed by the board. Mr. Pellecchia then gave an overview of the markets for the quarter, stating that equities had been negative but fixed income had been positive. Mr. Pellecchia reported the fiscal year rate of return of 9.92% vs the target of 11.84%, stating that manager performance was a negative factor. Mr. Pellecchia called the board's attention to asset allocation, stating that there was a slight underweighting in the domestic fixed income portfolio. Mr. Huff questioned the asset allocation of large cap domestic equities and internationals, stating that small cap equities had outperformed large cap for the last several years. Mr. Pellecchia explained that Callan recommends that the PACT's total domestic equity allocation should resemble a broad benchmark like the Russell 3000 index or Wilshire 5000 index with regard to the capitalization breakdown. The international component provides lower correlation to the domestic markets and therefore added diversification to the portfolio. He stated that he was comfortable with the allocation. It was noted that the performance of large cap equities had trailed small cap equities for the past five years. Mr. Pellecchia stated that a manager who had the largest holdings in large cap had been replaced and a current manager, Peregrine, did not have a good year but would be contacted concerning performance. Concern was expressed by the Board for the length of time involved in replacing managers that were underperforming. Concern was also expressed on the timeliness of the investment performance information. It was agreed that the Investment Committee would meet or have a conference call the third or fourth week after the end of the quarter to discuss performance and make recommendations concerning any necessary action to bring to the Board at the quarterly meetings. Concern was also expressed about action from the Board when managers were not performing as expected. It was noted that the recently adopted Investment Policy addressed this concern in the area of manager monitoring.

Mr. Pellecchia stated that Bear Stearns and Earnest Partners had recently been hired to replace Fox Asset Management and Citigroup respectively and both were

off to a good start. He stated that Rumbline, the indexed equity manager, continued to perform as expected, mimicking the index.

Mr. Pellecchia informed the board that State Street, a recently hired small cap growth manager, was of concern. He stated that they had merged with Black Rock and had undergone changes in personnel and performance had been poor. He stated that he recommended terminating their contract since the team hired would no longer be in charge of the portfolio after January 31, 2005.

Mr. Pellecchia discussed the domestic fixed income managers, stating that Sterne Agee continues to perform well and has a consistent history of good performance. He further stated that AmSouth had not performed as well recently and that their portfolio was more conservative than Sterne Agee. He stated that these were complementary managers. Mr. Huff asked if we should reward the good performers by giving them more of the assets in their class, especially when they had a long history of good performance. Mr. Pellecchia stated that he would be meeting with AmSouth to discuss performance and would report back to the board at the February 2005 meeting, but the decision to reward managers for superior performance is more of a policy issue.

The quarterly investment report is attached for reference.

Agenda Item III. (B.)

Chairman Ivey informed the board that staff was preparing information for the Long Range Planning Committee in preparation for a meeting after the first of the new year.

Agenda Item III. (C.)

Articles were provided for review and received as information.

Agenda Item IV. (A.)

Chairman Ivey called the board's attention to a Request for Proposal for Payment Processing Services. Ms. Emfinger explained to the board the service and recommended staff review of the proposals and selection of the provider for approval by the Board. A motion was made by Mr. Sherling, seconded by Ms. Moore for approval of the resolution initiating the Request, with a change in the Resolution allowing staff to select the provider to present to the Board. The motion was unanimously approved.

Agenda Item IV. (B.)

Mr. Jones discussed with the board the Investment Committee's recommendation concerning the Bank of Ireland. He stated that based on the recommendation of Mr. Pellecchia, they were recommending termination of the contract with Bank of

Ireland for international equity management. A motion was made by Ms. Moore to terminate the contract with the Bank of Ireland effective February 1st with 30 day notice given. The motion was seconded by Mr. Sherling with unanimous approval.

Agenda Item IV. (C.)

Mr. Jones discussed with the board the Investment Committee's recommendation concerning State Street Research and Management Company. He explained that State Street had recently merged with Black Rock and that the manager of our account would no longer be with the firm. He further explained that the board had heard presentations for small cap growth managers back in February and the results were recent enough to recommend hiring Turner Partners as a replacement. Information on Turner was presented for review and is attached for reference. Mr. Pellecchia stated that if a new search was conducted, Turner would still be recommended. He further stated that he had talked with Turner Partners and that even though they had recently closed to new business, they had agreed to accept this account and had reduced their fee to 85 basis points on the first \$25 million with 80 basis points thereafter. A motion was made by Mr. Jones to terminate the contract with State Street effective February 1st with 30 day notice given, and to contract with Turner Partners at the negotiated fee with a five year contract effective February 1, 2005. The motion was seconded by Mr. Sherling with unanimous approval.

Agenda Item IV. (D.)

Mr. Jones discussed with the board the Investment Committee's recommendation concerning the evaluation of the proposals received for active core international equity management. Based on information reviewed and considered by the committee, he made a motion to recommend the following firms to make presentations to the board: New Star, Philadelphia International Advisors, and JPMorgan Fleming. The motion was seconded by Mr. Sherling with unanimous approval. Information was provided on each firm and presentations were made as follows:

New Star Institutional Managers

Bill Forsythe, Director of Business Development

Mark Beal, Co-head of Equity

Information was given on the firm, the investment process and performance. Mr. Forsythe stated that what set them apart was the continuity of the personnel, comprehensive process, consistent performance and a continued commitment to client servicing. He stated that their fee would be 50 basis points on the first \$100 million and 40 basis points thereafter.

Philadelphia International Advisors

Andrew Williams, Lead Portfolio Manager

James Lobb, Managing Director

Information was presented on the firm, the investment process and performance. Mr. Williams stated that what set them apart was their commitment to client servicing and their commitment to investing strictly in the international arena. He stated that their fee was 40 basis points on the first \$100 million, 35 on the next \$100 million and 30 thereafter.

JPMorgan Fleming

Nigel Emmett, Portfolio Manager

John O'Shea, Client Advisor

Information was presented on the firm, the investment process and performance. Mr. Emmett stated that what set them apart was their access to information through regional teams and portfolio construction. He stated that their fee would be 60 basis points.

The information and presentation materials are attached for reference.

After a discussion of the various firms presented, a motion was made by Mr. Huff to approve the resolution hiring New Star as an international core equity manager. The motion was seconded by Mr. Sherling with unanimous approval.

Agenda Item IV. (E.)

Chairman Ivey turned the meeting over to Vice Chairman, Ricky Jones, who presided during her brief absence. Mr. Jones discussed with the board the Investment Committee's recommendation concerning the evaluation of the proposals received for trust fund custody. Based on information reviewed and considered by the committee, he made a motion to recommend the following firms to make presentations to the board: JPMorgan Chase, Wachovia and Bank of New York. The motion was seconded by Mr. Sherling with unanimous approval.

Information was provided on each firm and presentations were made as follows:

JPMorgan Chase

Scott Rimmer, VP, New Business Development

Tom Christofferson, Sr. VP, Senior Relationship Manager

Peter L. Gibson, Assistant VP, Relationship Manager

Mike Zebrowski, VP, Global Securities Lending

Information was presented on the firm, custodial capabilities, technological advancements and securities lending. Mr. Rimmer stated that they were the largest provider of custody services in the world. He stated that they would waive the domestic custody fee if securities lending was part of the contract and that incidental fees would be waived. He also stated that manager monitoring was also offered at a fee of \$1000 per portfolio per year. Mr. Zebrowski stated that the split on securities lending would be 70/30.

Bank of New York

Jim Shanley, Senior Relationship Manager

Gregory Forbes, Client Executive/Regional Business Development Manager

Information was presented on the firm, client servicing, custodial capabilities and securities lending. Mr. Forbes stated that they had a strong commitment to technology and had secured more public funds business than any other firm. He stated that the fee for manager monitoring would be a minimum of \$15,000 annually and the split on securities lending would be 70/30.

Wachovia

Andy Nelson, Managing Director, Global Custody and Securities Lending

Mike Russo, Managing Director, Business & Product Solutions

Glenda Webb, VP, Relationship Manager

Mary Jo Lee, Manager, Institutional Trust Services

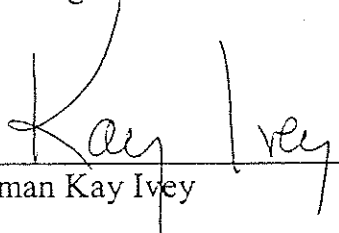
Information was presented on the firm, client servicing, custodial capabilities and securities lending. Mr. Nelson stated that the recent merger of Wachovia and SouthTrust would further enhance their capabilities and that they expected to have a presence in Birmingham. He stated that the split on securities lending would be 70/30. Mr. Jones asked Mr. Nelson if they would be willing to waive the domestic custody fee if the contract included securities lending; Mr. Nelson stated that they probably could, but he would need to get back to us within 24 hours.

The information and presentation materials are attached for reference. Mr. Pellecchia was asked for his opinion and he stated that JPMorgan Chase and Bank of New York would be considered Tier I custodians and Wachovia a Tier II. After a discussion of the various firms presented and the fee schedules, a motion was made by Dr. Malone to approve the resolution hiring JPMorgan Chase as the trust fund custodian. The motion was seconded by Mr. Sherling with unanimous approval.

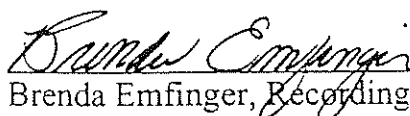
Agenda Item V.

Chairman Ivey resumed the chair and called the board's attention to the meeting dates for 2005 which are attached for reference.

There being no further business, the meeting was adjourned at 4:10 p.m.



Chairman Kay Ivey



Brenda Emfinger, Recording Secretary

Adopted Resolution by the
PACT Board of Trustees at its meeting on
December 8, 2004

Topic: Selection of PACT Payment Processor

Whereas, the procurement of professional service providers is subject to the requirements of Section 41-16-72(4), Code of Alabama (1975); and,

Whereas, the Board of Trustees desires to select a Payment Processor through a competitive selection process open to all qualified business entities; and,

Whereas, the Board of Trustees ("Board") desires to proceed with the selection process in an expeditious manner; now,

Therefore, Be It Resolved, that the Board hereby authorizes the staff of the Treasurer's Office to (1) distribute the Request for Proposal as has been approved by the Board to all interested entities, (2) provide access to the Request For Proposal on the Treasurer's website for all interested entities, and (3) evaluate all responses to the Request for Proposal and provide a recommendation to the Board ; and,

Be It Further Resolved that the Board of Trustees shall meet to approve a provider no later than March 1, 2005.

Adopted Resolution by the
PACT Board of Trustees at its meeting on December 8, 2004

Topic: Selection of PACT Trust Fund International Equity Manager
February 1, 2005 - January 31, 2010

Whereas, the Board of Trustees ("Board") has issued and received twenty two written responses to the previously issued Requests for Proposals for International Equity Management Services; and

Whereas, the Investment Committee has evaluated the Proposals and requested oral presentations be made to the Board on December 8, 2004;

Therefore, Be It Resolved, that based on the oral presentations made to the Board from the firms selected by the Investment Committee, the Board authorizes the Treasurer to negotiate and execute a contract with New Star Institutional Managers Limited for International Equity Management Services for PACT for the period February 1, 2005 to January 31, 2010.

Adopted Resolution by the
PACT Board of Trustees at its meeting on December 8, 2004

Topic: Selection of PACT Trust Fund Custodian
March 1, 2005 - February 29, 2010

Whereas, the Board of Trustees ("Board") received ten written responses to the previously issued Requests for Proposals for Trust Fund Custodial Services; and

Whereas, the Investment Committee has evaluated the Proposals and requested oral presentations be made to the Board on December 8, 2004;

Therefore, Be It Resolved, that based on the oral presentations made to the Board from the firms selected by the Investment Committee, the Board authorizes the Treasurer to negotiate and execute a contract with JPMorganChase for Trust Fund Custodial Services for PACT for the period March 1, 2005 to February 29, 2010.

PACT
Alabama 529 Higher Education Fund

BOARD MEETING DATES

Proposed Meeting Dates for 2005

February 23, 2005

May 25, 2005

August 24, 2005

November 30, 2005